

# REPORT OF THE AUDITOR-GENERAL TO THE NORTHERN CAPE PROVINCIAL LEGISLATURE AND THE COUNCIL ON MAGRENG LOCAL MUNICIPALITY

## REPORT ON THE FINANCIAL STATEMENTS

### Introduction

1. I was engaged to audit the financial statements of the Magareng local municipality set out on pages xx to xx, which comprise the statement of financial position as at 30 June 2014, the statements of financial performance, changes in net assets, cash flows and of comparison of budget and actual amounts for the year then ended, for the year then ended, as well as the notes, comprising a summary of significant accounting policies and other explanatory information.

### Accounting officer's responsibility for the financial statements

2. The accounting officer is responsible for the preparation and fair presentation of these financial statements in accordance with the South African Standards of Generally Recognised Accounting Practice (SA Standards of GRAP) and the requirements of the Municipal Finance Management Act of South Africa, 2003 (Act No. 56 of 2003) (MFMA) and Division of Revenue Act of South Africa, 2013 (Act No. 2 of 2013) (DoRA) and for such internal control as the accounting officer determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

### Auditor-General's responsibility

3. My responsibility is to express an opinion on the financial statements based on conducting the audit in accordance with the Public Audit Act of South Africa, 2004 (Act No. 25 of 2004) (PAA), the general notice issued in terms thereof and International Standards on Auditing. Because of the matters described in the basis for disclaimer of opinion paragraphs, however, I was unable to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion.

### Basis for disclaimer of opinion

#### Revenue from non-exchange transactions

4. I was unable to obtain sufficient appropriate audit evidence for revenue from property rates as the municipality did not have a supplementary valuation roll in place. I was unable to confirm the amount disclosed by alternative means. Consequently, I was unable to determine whether any adjustments relating to revenue from non-exchange transactions stated at R4 522 649 (2013: R4 250 257) in the financial statements were necessary. Additionally, there is a consequential impact on the surplus for the period and the accumulated surplus.
5. Traffic fines were not disclosed in accordance with *IGRAP 1 Applying the probability test on initial recognition of revenue*. This occurred due to the municipality being unable to obtain the required documentation for this disclosure. Consequently, I was unable to determine whether any adjustments relating to revenue from traffic fines stated at R202 461 in the financial statements were necessary. Additionally, there is a consequential impact on the surplus for the period, the accumulated surplus and cash flow statement.

#### Revenue from exchange transactions

6. I was unable to obtain sufficient appropriate audit evidence for revenue from service charges as the municipality had an inadequate system of internal control to account for revenue and keep proper record of all revenue charged. I was unable to confirm the amount disclosed by alternative means. Consequently, I was unable to determine whether any adjustments relating to revenue from service charges stated at

R24 097 138 (2013: R28 946 861) in the financial statements were necessary. Additionally, there is a consequential impact on VAT, surplus for the period, the accumulated surplus and the cash flow statement.

#### **Receivables from non- exchange transactions**

7. I was unable to obtain sufficient appropriate audit evidence for the balances disclosed for receivables from non-exchange transactions. I was unable to confirm these receivables by alternative means. Consequently, I was unable to determine whether any further adjustments to receivables from non-exchange stated at R1 611 875 (2013 R527 811) in the financial statements were necessary. Additionally, there is a consequential impact on the debt impairment in the statement of financial performance, surplus for the period and the accumulated surplus.

#### **Receivables from exchange transactions**

8. I was unable to obtain sufficient appropriate audit evidence for the balances disclosed for receivables from exchange transactions. I was unable to confirm these receivables by alternative means. Consequently, I was unable to determine whether any further adjustments to consumer debtors stated at R12 646 793 (2013:R4 411 954) in the financial statements were necessary. Additionally, there is a consequential impact on the debt impairment in the statement of financial performance, VAT, surplus for the period and the accumulated surplus.

#### **Consumer deposits**

9. I was unable to obtain sufficient appropriate audit evidence that management had properly charged and accounted for all consumer deposits for the current and prior year, due to inadequacies in the accounting records. I was unable to confirm the consumer deposits by alternative means. Consequently, I was unable to determine whether any adjustment to consumer deposits stated at R617 683 in the financial statements was necessary.

#### **Inventory**

10. I was unable to obtain sufficient appropriate audit evidence regarding inventory as the municipality does not have a formal inventory management system in place. I was unable to confirm the inventory by alternative means. Consequently, I was unable to determine whether any adjustment to inventory stated at R415 738 in the financial statements was necessary.

#### **Property, plant and equipment**

11. I was unable to obtain sufficient appropriate evidence for property, plant and equipment disclosed as R353 381 731 in note 9 to the financial statements due to the following matters:
  - I was unable to physically verify certain assets included in the asset register as the municipality did not maintain adequate records relating to assets.
  - Property, plant and equipment owned by the municipality have not been included in the asset register and management was unable to provide adequate explanations for this.
  - Adequate documentation supporting the basis and underlying assumptions used in the valuation of assets was not provided as required by Directive 7.
12. I was unable to confirm the property, plant and equipment by alternative means. Consequently, I was unable to determine whether any adjustments to property plant and equipment were necessary. Additionally, there is a consequential impact on the accumulated depreciation and accumulated surplus.

### **Depreciation and impairment**

13. I was unable to obtain sufficient appropriate audit evidence regarding depreciation, as the deemed cost, useful lives and residual values of assets could not be confirmed. I was unable to confirm the depreciation by alternative means. Consequently, I was unable to determine whether any adjustment relating to depreciation stated at R19 626 349 in the financial statements was necessary. Additionally, there is a consequential impact on the surplus for the period and the accumulated surplus.
14. I was unable to obtain sufficient appropriate audit evidence regarding impairment on assets. No impairment was recognised in the statement of financial performance although assets were indicated as impaired in the asset register. I was unable to confirm the impairment by alternative means. Consequently, I was unable to determine whether any adjustment relating to impairment was necessary. Additionally, there is a consequential impact on the surplus for the period and the accumulated surplus.

### **Investment property**

15. I was unable to obtain sufficient appropriate audit evidence that the municipality recognised all property held to earn rental or for capital appreciation as investment property, in accordance with GRAP 16 *Investment property*. Assets registered in the name of the municipality could not be traced to the asset register. I was unable to determine whether any adjustment relating to investment property stated at R6 858 644 in the financial statements was necessary.

### **Commitments**

16. I was unable to obtain sufficient appropriate audit evidence regarding commitments. The municipality did not have adequate systems or a complete contract register in place for the recording of commitments. Consequently, I was unable to determine whether any adjustments to commitments disclosed as R15 126 617 in note 39 to the financial statements were necessary.

### **Value-added tax (VAT)**

17. The municipality did not claim all input VAT on qualifying expenses, resulting in the VAT receivable being understated by R1 043 355.

### **Distribution losses**

18. Distribution losses for water was not disclosed, as required by section 125(2d)(i) of the Municipal Finance Management Act. I could not determine the amount of this loss as it was impracticable to do so.

### **Disclaimer of opinion**

19. Because of the significance of the matters described in the basis for disclaimer of opinion paragraphs, I have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion. Accordingly, I do not express an opinion on the financial statements.

### **Emphasis of matters**

20. I draw attention to the matters below. My opinion is not modified in respect of these matters.

### **Restatement of corresponding figures**

21. As disclosed in note 33 to the financial statements, the corresponding figures for 30 June 2013 have been restated as a result of an error discovered during 2014 in the financial statements of the municipality at, and for the year ended, 30 June 2013.

**Material losses/ Impairments**

22. As disclosed in note 26 to the financial statements, material impairment to the amount of R2 637 393 (2013: R13 202 443) was incurred as a result of impairment of trade debtors
23. As disclosed in note 37.4 to the financial statements, material losses to the amount of R2 133 809 (2013: R1 111 427) was incurred as a result of electricity losses incurred in the general management of the municipality

**Irregular Expenditure**

24. As disclosed in note 37.3 to the financial statements, irregular expenditure to the amount of R 16 449 166 (2013: 2 486 655) was incurred as a result of non-compliance with the applicable laws and regulations.

**Material underspending of the budget**

25. As disclosed in the statement of comparison of budget and actual amounts, the municipality has materially underspent the budget to the amount of R11 657 189.

**Additional matter**

26. I draw attention to the matter below. My opinion is not modified in respect of this matter.

**Unaudited supplementary schedules**

27. The supplementary information set out in appendix A - D does not form part of the financial statements and is presented as additional information. I have not audited this schedule and, accordingly, I do not express an opinion thereon.

**REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS**

28. In accordance with the PAA and the general notice issued in terms thereof, I report the following findings on the reported performance information against predetermined objectives for selected objectives presented in the annual performance report, non-compliance with legislation as well as internal control. The objective of my tests was to identify reportable findings as described under each subheading but not to gather evidence to express assurance on these matters. Accordingly, I do not express an opinion or conclusion on these matters.

**Predetermined objectives**

29. I performed procedures to obtain evidence about the usefulness and reliability of the reported performance information for the following selected objectives presented in the annual performance report of the municipality for the year ended 30 June 2014:
- a. Objective: Good governance and public participation on pages xx to xx
  - b. Objective: Basic service delivery and infrastructure investment on pages xx to xx
30. I evaluated the reported performance information against the overall criteria of usefulness and reliability.
31. I evaluated the usefulness of the reported performance information to determine whether it was presented in accordance with the National Treasury's annual reporting principles and whether the reported performance was consistent with the planned objectives. I further performed tests to determine whether indicators and targets were well defined, verifiable, specific, measurable, time bound and relevant, as required by the National Treasury's *Framework for managing programme performance information*

(FMPPI).

32. I assessed the reliability of the reported performance information to determine whether it was valid, accurate and complete.
33. The material findings in respect of the selected [development priorities or objectives] are as follows:

#### **Good governance and public participation**

##### **Usefulness of reported performance information**

34. Section 41(c) of the Municipal Systems Act requires the integrated development plan to form the basis for the annual report, therefore requiring consistency of objectives, indicators and targets between planning and reporting documents. 100% of the reported objectives were not consistent with those in the approved integrated development plan. This was due to a lack of review of consistency between planning and reporting documents by management.
35. Section 41(c) of the Municipal Systems Act requires the integrated development plan to form the basis for the annual report, therefore requiring consistency of objectives, indicators and targets between planning and reporting documents. A total of 73% of the reported indicators were not consistent with those in the approved integrated development plan. This was due to a lack of review of consistency between planning and reporting documents by management.
36. Section 41(c) of the Municipal Systems Act requires the integrated development plan to form the basis for the annual report, therefore requiring consistency of objectives, indicators and targets between planning and reporting documents. A total of 100% of the reported targets were not consistent with those in the approved integrated development plan. This was due to a lack of review of consistency between planning and reporting documents by management.
37. The FMPPI requires the following:
  - Performance targets must be specific in clearly identifying the nature and required level of performance. A total of 82% of the targets were not specific.
  - Performance targets must be measurable. We could not measure the required performance for 82% of the targets.
  - The period or deadline for delivery of targets must be specified. A total of 82% of the targets were not time bound.
  - Performance indicators must be well defined by having clear data definitions so that data can be collected consistently and is easy to understand and use. A total of 27% of the indicators were not well defined.
  - Performance indicators must be verifiable, meaning that it must be possible to validate the processes and systems that produced the indicator/measure. 100% of the indicators were not verifiable.

This was because management was not trained in the requirements of the FMPPI.

##### **Reliability of reported performance information**

38. The FMPPI requires auditees to have appropriate systems to collect, collate, verify and store performance information to ensure valid, accurate and complete reporting of actual achievements against planned objectives, indicators and targets. Adequate and reliable corroborating evidence could not be provided for 100% of the targets to assess the reliability of the reported performance information. The auditee's records did not permit the application of alternative audit procedures. This was due to poor

recordkeeping with regards to predetermined objectives.

### **Basic service delivery and infrastructure investment**

#### **Usefulness of reported performance information**

39. Section 41(c) of the Municipal Systems Act requires the integrated development plan to form the basis for the annual report, therefore requiring consistency of objectives, indicators and targets between planning and reporting documents. 57% of the reported objectives were not consistent with those in the approved integrated development plan. This was due to a lack of review of consistency between planning and reporting documents by management.
40. Section 41(c) of the Municipal Systems Act requires the integrated development plan to form the basis for the annual report, therefore requiring consistency of objectives, indicators and targets between planning and reporting documents. A total of 87% of the reported indicators were not consistent with those in the approved integrated development plan. This was due to a lack of review of consistency between planning and reporting documents by management.
41. Section 41(c) of the Municipal Systems Act requires the integrated development plan to form the basis for the annual report, therefore requiring consistency of objectives, indicators and targets between planning and reporting documents. A total of 83% of the reported targets were not consistent with those in the approved integrated development plan. This was due to a lack of review of consistency between planning and reporting documents by management.
42. The FMPPI requires the following:
- Performance targets must be specific in clearly identifying the nature and required level of performance. A total of 40% of the targets were not specific.
  - Performance targets must be measurable. We could not measure the required performance for 49% of the targets.
  - The period or deadline for delivery of targets must be specified. A total of 74% of the targets were not time bound.
  - Performance indicators must be well defined by having clear data definitions so that data can be collected consistently and is easy to understand and use. A total of 80% of the indicators were not well defined.
  - Performance indicators must be verifiable, meaning that it must be possible to validate the processes and systems that produced the indicator/measure. 100% of the indicators were not verifiable.

43. This was because management was not trained in the requirements of the FMPPI.

#### **Reliability of reported performance information**

44. The FMPPI requires auditees to have appropriate systems to collect, collate, verify and store performance information to ensure valid, accurate and complete reporting of actual achievements against planned objectives, indicators and targets. Adequate and reliable corroborating evidence could not be provided for 100% of the targets to assess the reliability of the reported performance information. The auditee's records did not permit the application of alternative audit procedures. This was due to poor recordkeeping with regards to predetermined objectives.

#### **Additional matter**

45. I draw attention to the following matter:

### **Achievement of planned targets**

46. Refer to the annual performance report for information on the achievement of the planned targets for the year. This information should be considered in the context of the material findings on the usefulness and reliability of the reported performance information for the selected objectives reported in paragraphs xx to xx of this report.

### **Unaudited supplementary information**

47. The supplementary information set out on pages 27 to 41 does not form part of the annual performance report and is presented as additional information. I have not audited these schedules and, accordingly, I do not report thereon

### **Compliance with legislation**

48. I performed procedures to obtain evidence that the municipality had complied with applicable legislation regarding financial matters, financial management and other related matters. My findings on material non-compliance with specific matters in key legislation, as set out in the general notice issued in terms of the PAA are as follows:

### **Budgets**

49. Expenditure was incurred in excess of the limits of the amounts provided for in the votes of the approved budget, in contravention of section 15 of the Municipal Finance Management Act.
50. Sufficient appropriate audit evidence could not be obtained that expenditure which was approved as unforeseen and unavoidable was considered by the council, but not included in the approved annual budget as required by Municipal Budget and Reporting Regulation 71(2).

### **Annual financial statements and annual reports**

51. The financial statements submitted for auditing were not prepared in all material respects in accordance with the requirements of section 122 of the Municipal Finance Management Act. Material misstatements identified by the auditors in the submitted financial statements could not be adequately corrected, which resulted in the financial statements receiving a disclaimer of audit opinion.
52. The 2012/13 annual report was not tabled in the municipal council within seven months after the end of the financial year, as required by section 127(2) of the Municipal Finance Management Act.
53. A written explanation was not submitted to council setting out the reasons for the delay in the tabling of the 2012/13 annual report in the council, as required by section 127(3) and 133(1)(a) of the Municipal Finance Management Act.
54. Oversight report, containing comments on the annual report, was not adopted by council within two months from the date on which the 2012/13 annual report was tabled, as required by section 129(1) of the Municipal Finance Management Act.

### **Audit Committees**

55. The audit committee did not advise the council on matters relating to internal financial control and internal audits, risk management, accounting policies, effective governance, performance management and performance evaluation as required by section 166(2)(a) of the Municipal Finance Management Act.
56. The audit committee did not advise the council on matters relating to the adequacy, reliability and accuracy of financial reporting and information, as required by section

166(2)(a)(iv) of the Municipal Finance Management Act.

57. The audit committee did not advise the council on matters relating to compliance with legislation, as required by section 166(2)(a)(vii) of the Municipal Finance Management Act.
58. The audit committee did not review the annual financial statements to provide the council with an authoritative and credible view of the financial position of the entity, its efficiency and effectiveness and its overall level of compliance with legislation, as required by section 166(2)(b) of the Municipal Finance Management Act.
59. The audit committee did not respond to the council on the issues raised in the audit reports of the Auditor-General, as required by section 166(2)(c) of the Municipal Finance Management Act.
60. The audit committee did not meet at least four times a year, as required by section 166(4)(b) of the Municipal Finance Management Act.

#### **Internal audit**

61. The internal audit unit did not function as required by section 165(2) of the Municipal Finance Management Act, in that:
  - It did not prepare a risk-based audit plan and an internal audit programme for the financial year under review.
  - It did not report to the audit committee on the implementation of the internal audit plan.
  - It did not advise the accounting officer and/or report to the audit committee on matters relating to internal audit, internal controls, accounting procedures and practices, risk and risk management and loss control.
62. The internal audit unit did not advise the accounting officer and reported to the audit committee on matters relating to compliance with the Municipal Finance Management Act, the Division of Revenue Act and other applicable legislation, as required by section 165(2)(b)(vii) of the Municipal Finance Management Act.

#### **HR Management**

63. An acting CFO and head of SCM was appointed for a period of more than three months without the approval by the MEC for local government in contravention of section 56(1)(c) of the Municipal Systems Act.
64. The municipality did not develop and adopt appropriate systems (policies) and procedures to monitor measure and evaluate performance of staff in contravention of MSA sec 67(d).

#### **Expenditure Management**

65. Money owed by the municipality was not always paid within 30 days, as required by section 65(2)(e) of the Municipal Finance Management Act
66. Reasonable steps were not taken to prevent unauthorised expenditure, irregular expenditure and fruitless and wasteful expenditure, as required by section 62(1)(d) of the Municipal Finance Management Act.
67. An effective system of expenditure control, including procedures for the authorisation, was not in place, as required by section 65(2)(a) of the Municipal Finance Management



Act.

### **Conditional grants**

68. The Municipal Infrastructure Grant Funds were retained without seeking the approval of the National Treasury as required by section 21(1) of the Division of Revenue Act.

### **Revenue management**

69. An effective system of internal control for debtors and revenue was not in place, as required by section 64(2)(f) of the Municipal Finance Management Act.
70. A credit control and debt collection policy was not maintained, as required by section 96(b) of the Municipal Systems act and section 62(1)(f)3 of the Municipal Finance Management Act.
71. Sufficient appropriate audit evidence could not be obtained that revenue due to the municipality was calculated on a monthly basis, as required by section 64(2)(b) of the Municipal Finance Management Act.

### **Consequences management**

72. Unauthorised, irregular and fruitless and wasteful expenditure incurred by the municipality was not investigated to determine if any person is liable for the expenditure, in accordance with the requirements of section 32(2) of the Municipal Finance Management Act.

### **Asset management**

73. An effective system of internal control for assets (including an asset register) was not in place, as required by section 63(2)(c) of the Municipal Finance Management Act.

### **Procurement**

74. Goods and services with a transaction value of below R200 000 were procured without obtaining the required price quotations as required by SCM regulation 17(a) & (c).
75. Bid specifications were not always drafted by bid specification committees which were composed of one or more officials of the municipality as required by SCM regulation 27(3).
76. Construction projects were not always registered with the Construction Industry Development Board (CIDB), as required by section 22 of the CIDB Act and CIDB regulation 18.
77. Contracts and quotations were awarded to bidders who did not submit a declaration on whether they are employed by the state or connected to any person employed by the state, as required by SCM regulation 13(c).
78. Contracts were not advertised in the municipality website as required by SCM regulation 22(1)(a).
79. A list of accredited prospective providers was not in place for procuring goods and services through quotations as required by SCM regulation 14(1)(a).
80. Sufficient appropriate audit evidence could not be obtained that contract [and quotations] were only awarded to providers whose tax matters have been declared by the South African Revenue Service to be in order as required by SCM regulation 43.
81. Sufficient appropriate audit evidence could not be obtained that contracts and quotations were awarded to bidders that scored the highest points in the evaluation

process, as required by of section 2(1)(f) of Preferential Procurement Policy Framework Act.

82. Sufficient appropriate audit evidence could not be obtained that contracts and quotations were awarded to suppliers based on preference points that were allocated and calculated in accordance with the requirements of the Preferential Procurement Policy Framework Act and its regulations.
83. Sufficient appropriate audit evidence could not be obtained that contracts and quotations were awarded to bidders that scored the highest points in the evaluation process, as required by of section 2(1)(f) of Preferential Procurement Policy Framework Act.
84. Sufficient appropriate audit evidence could not be obtained that the preference point system was applied in all procurement of goods and services above R30 000 as required by section 2(a) of the Preferential Procurement Policy Framework Act and SCM regulation 28(1)(a).
85. Sufficient appropriate audit evidence could not be obtained that contracts and quotations were awarded to bidders based on points given for criteria that were stipulated in the original invitation for bidding [and quotations], as required by SCM Regulations 21(b) and 28(1)(a) and Preferential Procurement Regulations.
86. Sufficient appropriate audit evidence could not be obtained that bids were evaluated by bid evaluation committees which were composed of officials from the departments requiring the goods or services and at least one SCM practitioner of the municipality as required by SCM regulation 28(2).
87. Sufficient appropriate audit evidence could not be obtained that invitations for competitive bidding were advertised for a required minimum period of days, as required by SCM regulation 22(1) & 22(2).
88. Bid specifications were not always drafted by bid specification committees which were composed of one or more officials of the municipality as required by SCM regulation 27(3).
89. Bid specifications for procurement of goods and services through competitive bids were drafted in a biased manner that did not allow all potential suppliers to offer their goods or services, in contravention of SCM regulation 27(2)(a).
90. Goods and services of a transaction value above R200 000 were procured without inviting competitive bids, as required by SCM regulation 19(a).

#### **Predetermined objectives**

91. No evidence provided that the municipality afforded the local community at least 21 days to comment on the final draft of its integrated development plan before the plan was submitted to council for adoption.
92. The municipality did not conduct its affairs in a manner which was consistent with its integrated development plan and the annual budget is not aligned to the integrated development plan of the municipality.
93. The municipality did not establish a performance management system, as required by section 38(a) of the Municipal Systems Act.
94. Key performance indicators, including input, output and outcome indicators, in respect of each of the development priorities and objectives were not set out in the IDP, as required by section 41(1)(a) of the MSA and the Municipal planning and performance management regulation 1 and 9(1)(a).

95. No evidence was provided that the mayor considered and if necessary, made revisions to the SDBIP, provided that revisions to the SDBIP were approved by the council, after the approval of the adjustments budget as required by the MFMA section 54(1)(c)
96. The performance management system and related controls were not in place as it did not describe and represent the processes of performance planning, monitoring, measurement and reporting and how it is conducted, organised and managed, including determining the roles of the different role-players, as required by sections 38 of the MSA and regulation 7 of the Municipal planning and performance management regulations.
97. The annual performance agreements for the municipal manager and all senior managers are not linked to the measurable performance objectives approved with the budget and to the service delivery budget implementation plan as required in terms of section 53(1)(c)(iii) of the MFMA and section 57(1)(b) of the MSA.
98. The accounting officer did not assess the first half of the financial year performance of the municipality by 25 January 2014.

### **Internal control**

99. I considered internal control relevant to my audit of the financial statements, annual performance report and compliance with legislation. The matters reported below are limited to the significant deficiencies that resulted in the basis for disclaimer of opinion, the findings on the annual performance report and the findings on non-compliance with legislation included in this report.

### **Leadership**

100. The accounting officer did not exercise adequate oversight responsibility over financial and performance reporting and compliance with laws and regulations, as the municipality did not address the findings regarding the financial statements, performance information and compliance of the previous year. As a result, there were repeat findings in the current year.
101. The municipality did not have sufficient monitoring controls to ensure adherence to the internal policies and procedures at a programme level and for purposes of taking corrective action. As a result, material non-compliance issues were noted as detailed in the compliance with laws and regulations section of this report.

### **Financial and performance management**

102. Finance staff had an insufficient understanding of the accounting framework. This contributed to the numerous qualifications in the financial statements of the municipality.
103. The financial statements prepared by consultants were not properly reviewed for completeness and accuracy prior to submission for auditing. This resulted in findings relating to incorrect disclosures.
104. Effective performance systems, processes and procedures and the management thereof have not been adequately implemented. The financial statements were also subject to material adjustments. Documentation supporting amounts disclosed in the financial statements and achievement of predetermined objectives targets disclosed in the annual report was not available

### **Governance**

105. The financial statements were subject to material corrections resulting from the audit, which are attributable to the lack of risk assessment performed, weaknesses in the design and implementation of internal control in respect of financial management, and financial reporting and weaknesses in the information systems. This was also evident by the fact that most audit finding of the prior year are still applicable in the current year.

106. The municipality performed a risk assessment for the year however it did not consider all risks pertaining to the municipality. This resulted in material matters not being included in the risk register and not being followed up during the year. Internal controls surrounding SCM, revenue, expenditure and asset management along with the subsequent compliance matters and matters relating to service delivery were not corrected.

107. The municipality did not ensure the establishment of an effective audit committee and internal audit unit to enhance the internal control environment of the municipality.



Kimberley

30 November 2014



AUDITOR - GENERAL  
SOUTH AFRICA

*Auditing to build public confidence*